

Department of Legislative Services
Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 947

(Senator Jones-Rodwell)

Budget and Taxation

Appropriations

**State Retirement and Pension System - Vested Retirement Allowance - Members
and Former Members**

This bill requires members and former members of designated retirement and pension plans within the State Retirement and Pension System (SRPS) to submit written applications to the SRPS Board of Trustees that state the date on which they want to begin receiving their vested allowance. However, members and former members of the designated plans may not receive a retroactive vested benefit allowance if they file for vested benefits after their normal retirement age. The bill also clarifies that members and former members who receive a refund of accumulated contributions are not entitled to further benefits.

The bill takes effect July 1, 2011, and applies only prospectively. It may not be construed to apply to any member or former member who, as of June 30, 2011, has separated from employment (other than by death or retirement) with at least five years of eligibility service and has reached normal retirement age.

Fiscal Summary

State Effect: State pension liabilities and contribution rates (all funds) may decrease beginning in FY 2013 to the extent that some members and former members who have not already passed their normal retirement age as of the bill's effective date file for vested benefits after reaching that age because they will no longer be eligible for retroactive benefit payments. The extent of that savings cannot be reliably predicted, but based on the frequency with which members and former members surpass their normal retirement ages, the savings may be significant. The savings may be less to the extent that ongoing efforts to notify former members that they are owed a vested benefit are successful.

Local Effect: As with the State plans, pension liabilities and contribution rates for participating governmental units (PGUs) may decrease to the extent that members and former members employed by PGUs file for vested benefits after reaching their normal retirement ages.

Small Business Effect: None.

Analysis

Bill Summary: The bill applies to members or former members of the:

- Correctional Officers Retirement System (CORS);
- Employees' Retirement System;
- State Police Retirement System;
- Teachers' Retirement System;
- Employees' Pension System (EPS);
- Law Enforcement Officers' Pension System (LEOPS); and
- Teachers' Pension System.

For the designated systems, the bill specifies that a vested allowance *may* begin at a member's or former member's normal retirement age, instead of requiring that it begin at that age. Thus, vested benefits continue to begin at the normal retirement age for members or former members who file their request for a vested benefit on that date. However, for members or former members who file after their normal retirement age, the vested benefit may not begin before the date on which they file their request.

Current Law: A member of designated plans within SRPS may receive a vested retirement allowance if the member separates from employment before retirement or death and has at least five years of eligibility service. A member who separates from employment is deemed to have elected a vested allowance if the member does not request a refund of member contributions when the member separates from employment. If a member requests a refund of contributions at the time of separation, the member is not entitled to a vested allowance.

Vested allowances are payable beginning at normal retirement age and are calculated based on the member's creditable service (including unused sick leave credit) and average final compensation at the time of separation from employment.

Exhibit 1 shows the normal retirement ages for each of the designated plans within SRPS that are affected by the bill.

Exhibit 1
Normal Retirement Ages in the State Retirement and Pension System

	<u>Normal Retirement Age</u>
Teachers' Retirement System/Employees' Retirement System	60
Teachers' Pension System/Employees' Pension System	62
State Police Retirement System	50
Correctional Officers' Retirement System	55*
Law Enforcement Officers' Pension System	50

*Normal retirement age is 60 for members of the Correctional Officers' Retirement System who are maximum security attendants at the Clifton T. Perkins Hospital Center.

Source: Annotated Code of Maryland, State Personnel and Pensions Article

A former member of the Teachers' Pension System or Employees' Pension System who separated from employment on or before June 30, 1998, with at least 15 years of eligibility service credit may receive an early retirement vested allowance at age 55. The early retirement allowance is reduced 0.5% for each month that the member's early retirement date precedes the member's sixty-second birthday.

Local governmental units may participate in EPS, LEOPS, and CORS as PGUs. PGUs pay the full employer costs for their participating employees, and their pension liabilities are not liabilities of the State.

Background: SRPS members who reach normal retirement eligibility receive a benefit allowance only after they file for retirement. However, vested former members who request a vested benefit after their normal retirement age are entitled to a retroactive benefit payment to the date of eligibility, plus applicable cost-of-living adjustments.

The State Retirement Agency (SRA) is in the midst of an initiative to locate former members who are entitled to either a refund of member contributions or a vested benefit, but who have not claimed those benefits. It has provided information on these former members to the Internal Revenue Service, which provides a mail forwarding service. As a result, some former members have been located and have begun requesting vested benefits. To the extent that these former members have exceeded their age of eligibility, they will be entitled to retroactive benefit payments.

State Fiscal Effect: The General Assembly's consulting actuary advises that, as of June 30, 2010, there are 4,236 vested former members in the State plans who have not claimed their vested benefit despite being older than their normal retirement age. Of those, 2,500 were formerly members of one of the teachers' plans and 1,838 were formerly members of one of the employees' plans. The remaining 60 former members were either in LEOPS or CORS. These individuals are not affected by the bill because it applies only prospectively.

Savings may be generated in the future to the extent that current and future former vested employees apply for vested benefits after their normal retirement age. Future savings due to current and future vested members not claiming vested benefits on their normal retirement age cannot be estimated because the number and characteristics of individuals who do not claim vested benefits by their normal retirement age cannot be predicted.

Local Fiscal Effect: The General Assembly's consulting actuary reports that 637 former vested PGU members are older than their normal retirement age; all but one are in one of the employees' plans, and one is in LEOPS. These individuals are not affected by the bill. As with State members, PGUs may recognize some future savings to the extent that members and future members of PGUs apply for vested benefits after their normal retirement ages.

Additional Information

Prior Introductions: None.

Cross File: HB 1312 (Delegate Griffith) - Appropriations.

Information Source(s): Mercer Human Resources Consulting, Maryland State Retirement Agency, Department of Legislative Services

Fiscal Note History: First Reader - March 23, 2011
ncs/rhh Revised - Senate Third Reader/Clarification - April 7, 2011

Analysis by: Michael C. Rubenstein

Direct Inquiries to:
(410) 946-5510
(301) 970-5510